



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
CALDWELL COUNTY SHERIFF**

**Calendar Year 1999**

**EDWARD B. HATCHETT, JR.  
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**EXECUTIVE SUMMARY**  
**CALDWELL COUNTY**  
**STAN HUDSON, COUNTY SHERIFF**  
**CALENDAR YEAR 1999**  
**FEE AUDIT**

**Description of Office**

The office of the Sheriff is mandated and regulated by state laws and regulations. The Sheriff's major responsibilities include collecting and distributing tax collections and providing protection to the public.

**Audit Results**

The auditor has issued an unqualified opinion on the Caldwell County Sheriff's financial statement for the period January 1, 1999 through December 31, 1999. An unqualified opinion is an opinion issued when the auditor, based on the audit work performed, believes the financial statement of the Sheriff is presented fairly in all material respects.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$112,798 To Protect Deposits

**Statement of Receipts, Disbursements, and Excess Fees**

The financial statement of the Caldwell County Sheriff's office for calendar year 1998 reflects excess fees of \$2,636 due to the fiscal court. This was caused by the fiscal court overpaying the Sheriff's salary.

**Changes in Administration**

Calendar year 1999 was Stan Hudson's first full year as Sheriff.

**Financial Notes**

On May 23, 1995, the Caldwell County Fiscal Court adopted a fee pooling order. The Sheriff remits excess fees monthly to the fiscal court. The fiscal court then pays the operating expenses of the Sheriff's office.



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## Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable Van Knight, Caldwell County Judge/Executive  
Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

### Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Caldwell County, Kentucky, for the year ended December 31, 1999. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 1999, in conformity with the basis of accounting described above.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable Van Knight, Caldwell County Judge/Executive  
Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$112,798 To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated June 16, 2000, on our consideration of the County Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 16, 2000



CALDWELL COUNTY  
STAN HUDSON, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1999

Receipts

State Fees For Services:

Finance and Administration Cabinet	\$ 8,094	
Cabinet For Human Resources	<u>585</u>	\$ 8,679

Circuit Court Clerk:

Sheriff Security Service	\$ 8,807	
Fines and Fees Collected	<u>3,302</u>	12,109

Fiscal Court		57,430
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County Clerk - Delinquent Taxes		1,312
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Commission On Taxes Collected		135,965
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Fees Collected For Services:

Auto Inspections	\$ 6,188	
Accident and Police Reports	58	
Serving Papers	<u>13,305</u>	19,551

Other:

Carrying Concealed Deadly Weapon Permits	\$ 3,540	
Transport Mental Patients	1,815	
Sheriff Add-On Fees- 10% Penalty and Interest	<u>6,803</u>	12,158

Interest Earned		<u>3,252</u>
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Gross Receipts (Carried Forward)		\$ 250,456
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CALDWELL COUNTY  
 STAN HUDSON, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 Calendar Year 1999  
 (Continued)

Gross Receipts (Brought Forward)		\$	250,456
<u>Disbursements</u>			
Operating Disbursements:			
Contracted Services-			
Car Inspections	\$	825	
Other Charges-			
Carrying Concealed Deadly Weapon Permits		2,420	
Miscellaneous		109	
			<hr/>
Total Disbursements		\$	3,354
			<hr/>
Net Receipts		\$	247,102
Less: Statutory Maximum	\$	53,639	
Sheriff's Training Incentive		688	
			<hr/>
			54,327
			<hr/>
Excess Fees Due County for Calendar Year 1999		\$	192,775
Payments to County Treasurer - Monthly			190,139
			<hr/>
Balance Due at Completion of Audit		\$	2,636
			<hr/>

The accompanying notes are an integral part of the financial statement.

CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 1999  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 9, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$112,798 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at as of December 9, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 1,500,000
Uncollateralized and uninsured	<u>112,798</u>
Total	<u>\$ 1,612,798</u>

Note 4. Drug Fund

The Caldwell County Sheriff maintains an account restricted for the use of purchasing contraband drugs, alcohol, and to defray any necessary expenses pertaining to drugs. On January 1, 1999, the beginning balance was \$116. During 1999 interest of \$3 was earned on the account and all of the \$119 was spent.

Note 5. Fee Pooling

On May 23, 1995, the Caldwell County Fiscal Court adopted a fee pooling order. The Sheriff remits excess fees monthly to the fiscal court. The fiscal court then pays the operating expenses of the Sheriff's office.

COMMENT AND RECOMMENDATION



CALDWELL COUNTY  
STAN HUDSON, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

Calendar Year 1999

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$112,798 To Protect Deposits

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On December 9, 1999, \$112,798 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*I will monitor pledges more closely.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Honorable Van Knight, Caldwell County Judge/Executive  
Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Caldwell County Sheriff's financial statement as of December 31, 1999, and have issued our report thereon dated June 16, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Caldwell County Sheriff's financial statement as of December 31, 1999, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that is required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Caldwell County Sheriff internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable Van Knight, Caldwell County Judge/Executive  
Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 16, 2000

